



How to Successfully Manage Your Natural Gas Contract

A Handbook for Ordering and Payment Offices

Provided by:
Defense Fuel Supply Center
Directorate of Alternative Fuels

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TABLE OF CONTENTS

I.	Introduction and Purpose of the Handbook	2
II.	The BASICS.....	3-4
	♦ Commonly Used Terms	
	♦ Commonly Referenced Contract Clauses	
III.	The ORDERING OFFICE Procedures.....	5-6
	♦ GAS ORDERING PROCEDURES	
	♦ Duration and Quantity of Orders	
	♦ When to Order	
	♦ Oral versus Written Orders	
	♦ Variation in Orders	
	♦ Miscellaneous	
IV.	The PAYMENT OFFICE Procedures.....	7-11
	♦ SUBMISSION OF INVOICES FOR PAYMENT	
	♦ When and Who Receives an Invoice	
	♦ What Supporting Documentation Must Be Submitted	
	♦ The Payment for Actual Delivered Quantities or Nominated Quantities	
	♦ Adjusting Invoiced Quantities and Future Payments	
	♦ A “Correct” Contractor Invoice	
	♦ What are Price Modifications (PA mods)	
	♦ The Prompt Payment Act	
V.	Points of Contact	12
VI.	Suggestion Questionnaire	13

Introduction

Congratulations on receiving your Natural Gas Contract! In an effort to help you, as ordering or payment officers, to better understand the uniqueness of a Defense Fuel Supply Center (DFSC) Natural Gas contract and effectively manage your specific installation's Natural Gas needs under your new contract, we have developed this helpful hints guide. The purpose of the handbook is to provide basic information to Ordering and Payment Officers. The handbook was prepared based upon prior experience with contractors and installations with a focus on clarifying misunderstandings and answering common questions. We see the handbook as a living document, as such, we encourage any comments and/or suggestions which would be helpful. Please feel free to share your ideas by completing the Suggestion Form at the end of the handbook and returning it to DFSC.

Sharon L. Murphy
Director
Alternative Fuels

The BASICS

Basic Terms to know . . .

- ♦ **LDC**, or “*Local Distribution Company*,” refers to your local natural gas utility company.
- ♦ **LDC Citygate** refers to the point at which the LDC receives gas from a natural gas pipeline.
- ♦ **Capacity curtailment** is defined as a limit to interruptible pipeline capacity beyond the control of the Contractor which results in less than the ordered quantity of gas being delivered to the destination.
- ♦ **Firm or Limited Interruptible** refers to the type of transportation requirement for the specific installation (line item).

1. *Firm transportation* is guaranteed delivery of the natural gas. A requirement is solicited as a firm requirement if the installation has insufficient alternative fuel capabilities to satisfy the fuel requirement during a period of pipeline curtailment.

2. *Limited interruptible transportation* is a new concept which expects a certain level of reliable delivery. Limited interruptible requires the contractor to deliver a guaranteed percentage of gas each month. The contractor is excused from providing the quantity of gas exceeding the required delivery percentage if there is a documented pipeline capacity curtailment or recall of released firm capacity affecting the proposed delivery route. A requirement is solicited as a Limited Interruptible requirement if the installation has sufficient alternative fuel capabilities to satisfy the installation’s fuel needs during periods of pipeline curtailment.

- ♦ A **Dekatherm** and an **MCF** are two different units of measurement of natural gas. Natural gas may be measured based on energy content (thermal units), or based on volumetric units. Energy content is measured in British Thermal Units (BTU’s) while volume is measured in cubic feet. DFSC natural gas contracts use the thermal measurement Dekatherm (Dth), equivalent to 10 therms. One dekatherm is equal to 1,000,000 BTU’s. Your LDC may report gas consumption in the volumetric measurement MCF, equivalent to 1,000 cubic feet.

My gas contract uses DTH,
but my LDC uses MCFs.
What is the difference?



The heating value of a given volume of gas varies within the following range:

Minimum of 950 BTU per cubic foot

Maximum of 1,100 BTU per cubic foot

At a stated pressure of 14.73 pounds per square inch absolute (PSIA) and a temperature of 60° Fahrenheit.

To convert MCF's to Dths you will need to contact your local LDC to get the appropriate conversion factor.

♦ **Demand charge** is the reservation charge the contractor may pay to reserve sufficient capacity on the pipeline to deliver your Maximum Daily Quantity (MDQ) of natural gas. This charge may be listed as a lump sum in the contract, paid in equal monthly installments during the life of the contract, regardless of how much gas flows during the month, UNLESS a contractor is required to bill the demand charge on a volumetric basis (i.e. the demand charge is billed on a per Dth delivered basis). If the amount of firm capacity reserved for your installation exceeds your monthly requirement, your contractor is required to manage this excess capacity by using it for delivery of natural gas to other Government installations or by releasing it on the pipeline's electronic bulletin board. If the Contractor is able to use your capacity for another Government installation or release it to a replacement shipper, you will receive a credit on your monthly invoice.

♦ **Supply management** is also available and requires the Contractor to nominate the quantity of gas ordered by the ordering officer, monitor consumption and adjust the nomination to keep the installation's LDC account in balance. If your requirement includes supply management, your contract will include Clause C703, STATEMENT OF WORK FOR SUPPLY MANAGEMENT.

GAS SPECIFIC CLAUSES COMMONLY REFERENCED . . .

B700, ECONOMIC PRICE ADJUSTMENT -- PUBLISHED PRICES --

NATURAL GAS AND TRANSPORTATION

C700, STATEMENT OF WORK

F700, DELIVERIES AND PERFORMANCE

G700 OR G701, SUBMISSION OF INVOICES FOR PAYMENT

I700, GAS ORDERING PROCEDURES

B701 CONTRACT TYPE CONVERSION

B702 PRICE COMPONENTS - FIRM FIXED PRICE

C703 STATEMENT OF WORK FOR SUPPLY MANAGEMENT

The ORDERING OFFICE Procedures

Clause I700, GAS ORDERING PROCEDURES, outlines the specific requirements expected of each Ordering Office and Ordering Officer. The clause states when ordering shall occur, how the order is placed, and the responsibilities of the Contractor once an order is placed. Also, the clause outlines the limits to revisions to monthly ordered volumes as well as states the ordering office address for each line item contained in this contract. Addressed below are specific sections of the clause; however, not all of the provisions of the clause are discussed. Therefore, you should refer to the clause for further information.

- Orders should include the appropriate accounting and appropriation data. Funds should be obligated for the entire quantity set forth on the order.
- Funds obligation - Most DFSC natural gas contracts are requirements type contracts and funds must be obligated prior to issuance of a delivery order.
- ♦ When ordering should occur and the period of time an order covers . . .

The Ordering Office is required to order quantities of natural gas consistent with the estimated monthly requirements. Orders may be placed each month or for longer periods such as two months, three months, etc. However, an order may not be for longer than one year. The length of time an order covers is determined by the individual installation.

EXCEPTION: Installations with the Alternative II ceiling provision as described in clause B700, ECONOMIC PRICE ADJUSTMENT -- PUBLISHED PRICES -- NATURAL GAS AND TRANSPORTATION, may only order on a monthly basis. (Alternative II ceiling provision allows an installation to receive gas from the LDC if the estimated LDC price is lower than the estimated contract price in any given month).

- ♦ Ordering/Nomination Deadline . . .

The Ordering Office must place the order with the Contractor at least one working day prior to the 20th day of the preceding month.

- ♦ Oral versus Written Orders . . .

The order may be issued by verbal means over the telephone, by written means, or by written telecommunications. If the order is placed orally, it must be confirmed by writing within 24 hours of the oral issuance.

- ♦ Swings/Revisions to Monthly Orders

The Ordering Office may revise a current month's order within specified limits. These limits are defined as follows:

For Firm requirements: within plus or minus 10% of the monthly ordered quantity

For Limited Interruptible or Interruptible requirements: within plus or minus 25% of the monthly ordered quantity

Example: If the monthly order is for 200 Dths of Firm delivery and 400 Dths of Limited Interruptible delivery, then the order may be revised by either increasing or decreasing the firm order by 20 Dths and the limited interruptible order by 100 Dths.



IMPORTANT: For installations with supply management by the Contractor, it is the responsibility of the ordering office to obligate additional funds to cover the possible swing or revision of the monthly order. For installations that do not have supply management by the Contractor, the obligation of additional funds is at the discretion of the ordering office.

Variations that are beyond the defined boundaries require mutual agreement between the DFSC Contracting Officer and the Contractor.

- ♦ Questions?

Questions should be addressed to your DFSC representative or the Contracting Officer. (See the attached Points of Contact sheet found at the back of this handbook.)

The PAYMENT OFFICE Procedures

Clause G700 (or G701), SUBMISSION OF INVOICES FOR PAYMENT, outlines the specific requirements expected of each Payment Office. Clause G700 is used for line items which require the original invoice to be submitted to the Payment Office. Clause G701 is used for line items that require the original invoice to be sent to an office other than the payment office for certification. These clauses state when an invoice should be submitted, who receives a copy of the invoice, and what supporting documentation must be submitted by the Contractor to the Ordering Office. Also, these clauses outline what quantities are paid (actual deliveries versus nominated quantities), Payment Offices' abilities to adjust quantities on an invoice before payment or on future payments, and what a correct Contractor invoice should contain. The timeline for payment under the Prompt Payment Act is also stated in G700 (and G701). Addressed below are specific sections of these clauses, however, not all of the provisions of these clauses are outlined below. Therefore, you should refer to these clauses for further information.

- ◆ When and Who Should Receive an Invoice . . .

An original and three copies of an invoice should be received by the Payment Office or Invoice Submission Office no sooner than the first day of the month following delivery. For example, the invoice for deliveries during the month of July should not be dated or received before 1 August. The contractor shall submit two copies of each invoice to the Contracting Officer. A photocopy of each original invoice shall be sent via facsimile (FAX) to the Ordering/Receiving office for each installation.

- ◆ What Supporting Documentation Must Be Submitted

The Contractor is responsible for providing to the Ordering/Receiving Office pipeline documentation verifying the quantities delivered for the month invoiced. If this documentation cannot be provided in sufficient time for payment to be processed, the Payment Office will pay the quantities based upon the adjusted monthly order less any known nondelivered quantities. Once documentation is provided, any necessary adjustment should be completed by the Contractor on the next month's invoice.

- ◆ The Payment of Actual Delivered Quantities or Nominated Quantities

Payment is based on the actual delivered quantities unless pipeline documentation is not provided to verify the delivery, in which case, payment is based on the adjusted monthly ordered quantities.

♦ Adjusting Invoiced Quantities and Future Payments

The Government may adjust an invoice downward without prior consent of the Contractor if supporting documentation provides evidence that the quantities received by the installation are less than the quantities invoiced. The Government may also adjust any future payments if it is determined that a previously paid invoice was inaccurate.

♦ A "Proper" Contractor Invoice

In addition to the elements listed in Clause I3.01, PROMPT PAYMENT, any invoice received from the Contractor **MUST** contain, if applicable, the following information for each subline item:

- * the Supply Index Price,
- * the Transport Fuel Factor,
- * the Supply Adjustment Factor,
- the Transportation Adjustment Factor
- the monthly demand charge
- Firm fixed base price
- Firm fixed supply adjustment factor

A Sample Invoice Fixed Price with EPA and Firm Fixed Price:

Contractor Name	Date: April 1, 19XX
Address	Invoice #: 123456
Contract Number	
Deliveries for: March 19XX	
Line Item 0001, Fort Natural Gas, Wyoming	Fixed Price with EPA Quantity Delivered: 1,000 Dths
Supply Index Price	\$2.50
Transport Fuel Factor	\$0.10
Supply Adjustment Factor	\$0.10
Transportation Adjustment Factor	<u>\$0.10</u>
Total Price	\$2.80
Amount Due Fixed Price with EPA	\$2800.00
	Firm Fixed Price Quantity Delivered: 10,000 Dths
Winter Supply Base Price	\$2.342
Winter Supply Adjustment Factor	\$0.340
Transportation Adjustment Factor	<u>\$0.100</u>
Total Price	\$2.782
Amount Due Firm Fixed Price	\$27,820.00
TOTAL AMOUNT DUE	\$30,620.00

SAMPLE INVOICE CONTINUED

Please make check payable to and remit to:
ABC Gas Company
4523 Natural Way Drive
Pipeline Town, ND 21478

Questions may be directed to:
Ms. Frankie Johnson
(123) 555-1256

I hereby certify that NO APPLICABLE transportation discounts or allowances were allowed by the pipeline.

(Authorized Representative) (Date)

OR

I hereby certify that ALL APPLICABLE transportation discounts and allowances have been passed to the Government.

(Authorized Representative) (Date)

**What do I do with a
Price Modification?**



* Please review all invoices promptly. The Prompt Payment Act requires the Government to notify a Contractor within seven days of receipt of a defective invoice.

♦ What is a Price Modification? . . .

Most natural gas contracts are Fixed Price contracts with an Economic Price Adjustment clause. Each month the price of gas per Dekatherm is adjusted based upon the Gas industry market price for the applicable month. A price modification, or

PA Mod, is completed and distributed to the Contractor, Payment Office, and Ordering Office. The Price Modification indicates the adjusted unit price for gas and *must* be used to verify that the Supply Index Price and Transport Fuel Factor on the invoice submitted by the Contractor are correct. The Contractor should be paid *only* based upon the Total Destination Price indicated on the Price Modification.

A sample price modification is illustrated below:

Contractor Name Address					
Effective 1 Mar 19XX through 31 Mar 19XX					
Modification No: PA0001			Contract Number		
	Variable Pricing Factors		Contractor Pricing Factors		
Contr. Line Item #	Supply Index Price [AA]	Transp Fuel Factor [AC]	Supply Adjustment Factor [AD]	Transp Adjustment Factor [AE]	DFSC Customer's Destination Price {Does not include LDC Charges}
0001	\$2.50	\$0.10	\$0.10	\$0.10	\$2.80

Contractor Name Address				
Effective 1 Mar 19XX through 31 Mar 19XX				
Contract Number				
FOR INFORMATIONAL PURPOSES ONLY				
FIRM FIXED PRICING FACTORS				
Line Item #	BASE PRICE	SUPPLY ADJUSTMENT FACTOR	TRANSPORTATION FACTOR	DFSC'S CUSTOMER DESTINATION PRICE
0001	\$2.342	\$0.340	\$0.10	\$2.782

NOTE: An informational sheet containing the Firm Fixed pricing factors (i.e. Base price, Supply adjustment factor and Transportation factor) will also be provided for those installations with Firm Fixed pricing.

♦ Prompt Payment (Clause I1.03-1)

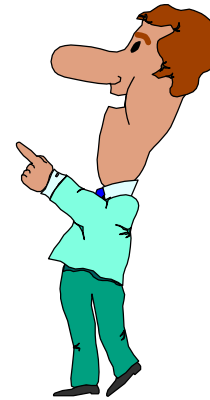
In accordance with the Prompt Payment Act, payments of invoices must be made within 30 days of receipt of a proper/correct invoice, or within 30 days after Government acceptance of supplies delivered by the Contractor, which ever is later.

Constructive acceptance is deemed to have occurred no later than the 7th of the month following deliveries.

- ♦ Questions?

Questions should be addressed to your DFSC-A technical representative or the Contracting Officer. (See the attached Points of Contact sheet found at the back of this handbook.)

**POINTS of CONTACT
for
DFSC Natural Gas Contracts**

**NORTHEAST REGION**

Shyletha Williams
(703) 767-8542

Shirley Bergman
(703) 767-8546

Linda Burlingame
(703) 767-8544

CENTRAL REGION

Nadine Sellers
(703) 767-8541

Greg Jackson
(703) 767-8543

SOUTH REGION

Irene Lelansky
(703) 767-8564

Lisa Robert
(703) 767-8671

Deborah Brovald
(703) 767-8422

WEST REGION

Laverne Tillson
(703) 767-8561

Irene Lelansky
(703) 767-8564

Penny Casey
(703) 767-8567

Deborah Brovald
(703) 767-8422

DIVISION CHIEFS:

Kevin Ahern -- *Northeast and Central Regions* --- (703) 767-8798
Colleen (Kelly) Morris -- *South and West Regions* --- (703) 767-8512

CONTRACTING OFFICERS:

John Crunkilton -- *Northeast and Central Regions* --- (703) 767-8553
Anna Kerr -- *South and West Regions* --- (703) 767-8559

DFSC Home Page Address: WWW.dfsc.dla.mil

DFSC Natural Gas Contract Handbook

SUGGESTIONS AND FEEDBACK FORM

FACSIMILE SHEET

**TO: Defense Fuel Supply Center
DFSC-A
8725 John J. Kingman Road
Suite 2941
Fort Belvoir, VA 22060-6222**

FROM: _____

FAX Number: (703) 767-8757

FAX Number: _____

Number of Pages: _____

Please provide feedback and any suggestions for the DFSC Natural Gas Contract Handbook below and fax to the above number. Feel free to use additional pages if necessary. Thank you.

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